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SUBJECT: Uruguayan Priorities as Mercosur President

SUMMARY

¶1. (SBU) SUMMARY: As Uruguay assumes the pro tempore presidency of the Mercosur trade bloc, President Vazquez signaled a measured approach to dealing with commercial barriers the GOU claims its two dominant neighbors have imposed. Uruguay's priorities include pressing Argentina to allow Mercosur development funds to finance an electrical interconnection project between Brazil and Uruguay, pushing Argentina and Brazil to end pre-licensing requirements on imports, and proposing a reorganization of Mercosur's 256 institutions. In addition, the GOU will seek to address the chronic Mercosur problems of double taxation within the bloc and stalled commercial negotiations with other blocs, notably the European Union. END SUMMARY.

MEASURED APPROACH WITH NEIGHBORS

¶2. (SBU) Uruguay began its six-month term as Mercosur's president pro tempore following the June 23-24 Mercosur summit in Asuncion. While the GOU has consistently expressed its dissatisfaction with Mercosur's failure to fulfill its original objective to create a common external tariff, President Vazquez signaled he would listen first and take actions later with regard to addressing tariff barriers imposed by Uruguay's two larger neighbors. Director of Economic Affairs Walter Cancela also struck a congenial tone on working with Argentina and Brazil, saying "Uruguay will not take reciprocal measures," which he suggested would have a greater negative impact on Uruguay itself.

¶3. (SBU) While publically taking a measured approach toward dealing with Argentina and Brazil, Foreign Minister Gonzalo Fernandez raised the issue of non-tariff barriers and para-tariff measures at the Mercosur Summit in Asuncion. He labeled them "protectionist measures that might be understandable, but could not be accommodated or justified," and other Foreign Ministry officials stated the GOU was concerned about delays in obtaining import licenses for products such as textiles going to Argentina and dairy products for Brazil. NOTE: the Uruguayan press reported delays in Brazil issuing import licenses for 10,000 tons of powdered milk and a \$400,000 retread tire transaction in July, causing Uruguayan operations to stop work due to the backlog. END NOTE. Meanwhile, the weekly business newspaper Busqueda describes Uruguay's ambassador in Argentina as "an administrative facilitator" who has been relegated to working daily to kick-start import license applications that have gotten stuck.

¶4. (SBU) GOU officials say that if the free flow of goods continues to be obstructed in Mercosur, it will push to extend a current regime for the temporary admission of goods, which is set to expire in 2013.

FOCEM - ELECTRICAL GRID INTERCONNECTION WITH BRAZIL

15. (SBU) A GOU priority is to convince Argentina to withdraw its veto of a \$80M loan from FOCEM, the Mercosur fund set up to facilitate structural integration. Foreign Minister Gonzalo Fernandez considers Argentina's veto a strictly political decision, and will insist its approval should be based solely on technical considerations. The technical aspects of the projects were approved earlier this year by a Mercosur committee, pending formal approval by each of the Mercosur members. Uruguayan diplomats have been quoted in the local media as describing Argentina's veto as a "political blockade" by the Fernandez Kirchner administration, alluding to the longstanding "blockade" by Argentine activists of the international bridge at Fray Bentos. These same sources say that - barring a breakthrough -- the GOU will seek external funding, describing the project as exceptionally economically viable.

DOUBLE TAXATION AND COMMERCIAL OUTREACH

16. (SBU) In addition to addressing immediate concerns related to pre-licensing, the GOU intends to raise long-standing issues such as eliminating double imposition of the Mercosur's common external tariff and moving forward on trade agreements with other blocs, especially the European Union. FM Fernandez said that Uruguay stands absolutely in favor of eliminating double-tariffs. The GOU understands that progress will be difficult to achieve with approaching elections at home and in Brazil.

MERCOSUR BASHING IN THE CAMPAIGN ARENA

17. (SBU) Uruguay's two principal candidates for president share the generalized Uruguayan disappointment with Mercosur. Jose Mujica called Mercosur "lame and in misery" and told voters that Latin America suffered difficulties finding the cohesion that other blocs enjoy. "We face extraordinary problems. I realize that to demand something from the world that is coming we must integrate, we must stand together so that we can have certain weight, if not we are condemned," he said. Meanwhile, also on the campaign trail, Luis Alberto Lacalle criticized Mercosur's parliament, Parlasur, and suggested the Bolivian delegation be removed. Lacalle has opposed inclusion of Venezuela and Bolivia in the bloc in favor of Chile, a country he considers more aligned with Uruguay's interests.

COMMENT

18. (SBU) The Frente Amplio government came into power in 2005 with a positive feeling toward Mercosur, but time spent dealing with the organization has given many officials a decidedly less enthusiastic view. The fact that Frente Amplio candidate Jose Mujica, who maintains some political affinity with current governments in Argentina, Venezuela and Bolivia, openly criticizes Mercosur, underscores the real frustration the GOU and Uruguayans in general have with the bloc.

SCHANDLBAUER